



# Liberalization and globalization: Trojan Horse for the cotton traders' domination in Francophone Africa

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Liberalization and globalization:  
Trojan Horse for the cotton traders' domination in Francophone Africa

## **1. Introduction**

In September 2003, at the WTO Ministerial Meeting in Cancun, four of the Francophone African Countries (FACs) attracted the international attention by demanding the end of the cotton subsidies. For the first time, the FACs exposed very officially how cotton production was socially and economically important in countries which jointly rank second at the exportation of cotton lint.

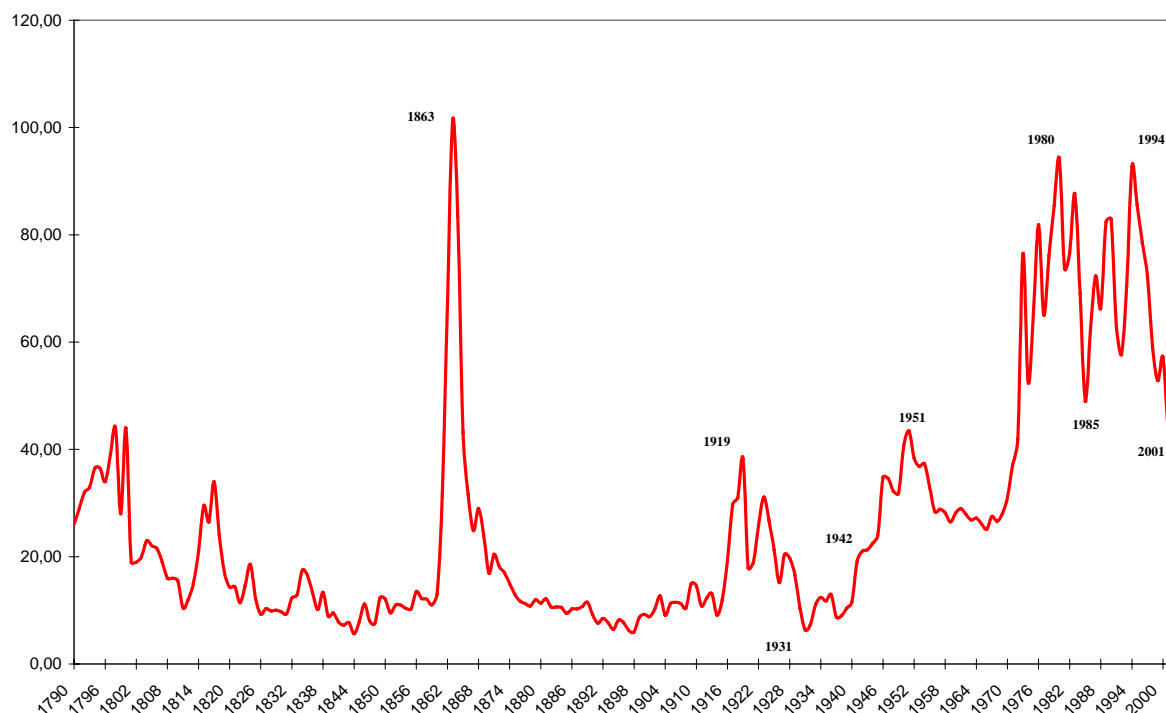
The "July Package" lets little hope that the FACs' claim for total subsidy abolition will be met. The African initiative is also debatable in its exclusive focus on national support policies since it is missing the effect of market structure on price formation. The exacerbated phenomenon of concentration and integration, in the areas of trade and processing of agricultural commodities remains overlooked as well as the price capture by the resulting oligopolies (Heffernan, 1999, Murphy, 2002, Scoppola, 1995, Wise, 2004).

In this communication, we contend that the FACs are now submitted to the cotton trading oligopoly as the result of the liberalization process advocated to further adapt to globalization. The first part emphasizes the phenomenon of concentration/integration and its effects on price formation. How it is materialized in the cotton case will be discussed. The second part informs on how cotton transactions run and how the FACs were sheltered from the Cotton Trade Multinational Companies (MNCs). The third part deals with the relationship between the liberalization process and the current MNCs' domination.

## **2. Exacerbated phenomenon of concentration/integration in the commodity trade**

For all agricultural commodities, no increase of commodity prices resulted after the Uruguay Round. In the cotton case, price declining trend is clear, as well as the accentuated volatility during the last three decades (Figure 1). For a few analysts, the influence of the market structure is clear (Murphy, 1999).

Figure 1. Volatility and recent downward trend of the world cotton price (current US cents/lb)



### ***2.1. General trend of exacerbated market concentration***

The reality of oligopoly control of the commodity trade was yet observed during the negotiation process of the Uruguay Round. In Europe, the trade of coarse grains at international level was controlled by three main firms (Scoppola, 1995). These firms are MNCs: e.g. Cargill operates in 70 countries. In the USA, in 2002, three firms (Cargill, ADM and Zen-Noh) controlled respectively 82% and 65% of the US corn and soy exportations. These figures far exceed the threshold of  $CR4 > 40\%$  (concentration ratio obtained by the four first firms) at which market competition is doubtful (Heffernan and Hendrickson, 2002, Trade and Development Board, 1999).

The concentration process takes place along with integration, commodity diversification and international expansion (Murphy, 2002). Integration is both upstream and downstream since commodity trading MNCs provide production inputs and they process commodities into semi-final or final foods. In the USA, in addition to grain trade, Cargill belongs to the top four firms producing animal feed, processing meat and dealing with handling and storage operations needed at exportation. Diversification leads the trading companies to deal with

commodities beyond the ones they traditionally addressed. Cargill became for instance a big cotton trade player within one decade. Concentration and diversification go along with international expansion. The leading companies in the soy trade or processing are more or less the same in USA, Brazil and Argentina.

## ***2.2. Market concentration and price capture***

The farm to wholesale price spread is an indication of the price capture: it is observed that, in the USA, the more concentration is, the higher is the price spread (Murphy, 2002). The declining price paid to cocoa and coffee producers is explained by the governance power of the downstream players (Kaplinsky, 2004). The process of "Inversed auctions" operated by Nestlé (Boris, 2005) points out the processor's power in imposing price upon traders who in return pass lower price to coffee producers.

The power on price formation expresses itself through various ways. In the coffee case, physical transactions only account for 10% of total transactions (Kaplinsky, 2004)). Hence, speculation to which traders are deeply involved should account far more in price formation.

Price capture could be suspected as responsible of the partial conversion of support money into farmers' income (Murphy, 2002): support payments are used as an excuse not to pay more to farmers (Murphy, 1999). The relationship between national support policies and trading MNCs is furthermore ambiguous when one considers that the trading MNCs were promoted by support measures like export programs, export guarantees and export credit (Scoppola, 1995). The Step 2 of the US support program has been typically profitable to cotton traders. Trading MNCs have now become so much powerful that phasing out support measures would not mitigate their market power

## ***2.3. Cotton trade concentration and its effect on price***

By updating the number of companies involved in the cotton trade worldwide, the International Cotton Advisory Committee (ICAC) inclines to believe that market competition prevails with around eighty companies it records (ICAC, 2005). This position is debatable since there are only a dozen of companies really involved in international trading business

(Table 1). These firms are MNCs which are mainly US or Europe-based MNCs.

Table 1. International cotton trading oligopoly

| Origin         | 1994   | 2004   |
|----------------|--|--|
| USA            | Allenberg cotton co.<br>Conticotton<br>Dunavant Enterprises Inc.<br>Hohenberg Bros. Cny  | Allenberg cotton co.<br>Dunavant Enterprises Inc.<br>ECOM USA Inc.<br>Cargill Cotton<br>Weil Brothers & Rountree |
| Europe         | L. Dreyfus Cotton international (B)<br>Copaco (Fr)<br>Paul Reinhard AG (Sz)<br>Stahel Hardmeyer AG (Sz)<br>Ralli Brothers & Coney (UK) | L. Dreyfus Cotton international (B)<br>Copaco (Fr)<br>Paul Reinhard AG (Sz)<br>Aiglon Dublin Ltd (Sz)<br>Plexus  |
| Asia & Pacific |  | Toyo Cotton (Jp)<br>Queensland cotton Corp. (Aus)  |

Source : From ICAC data in 1994 & 2004

This oligopolistic situation impacts on the connection of prices quoted at various cotton markets or stock exchanges (Baffes and Ajwad, 2001). The influence of the trading MNCs on the world price is further clearer through the analysis of this price reference: the A Index set up and published daily by Cotlook, a private firm based in Liverpool. This index has achieved an international status: it is the reference in the negotiation of transaction contracts, in the price setting in countries where price remains centrally administered and in cotton policy implementation like in the USA.

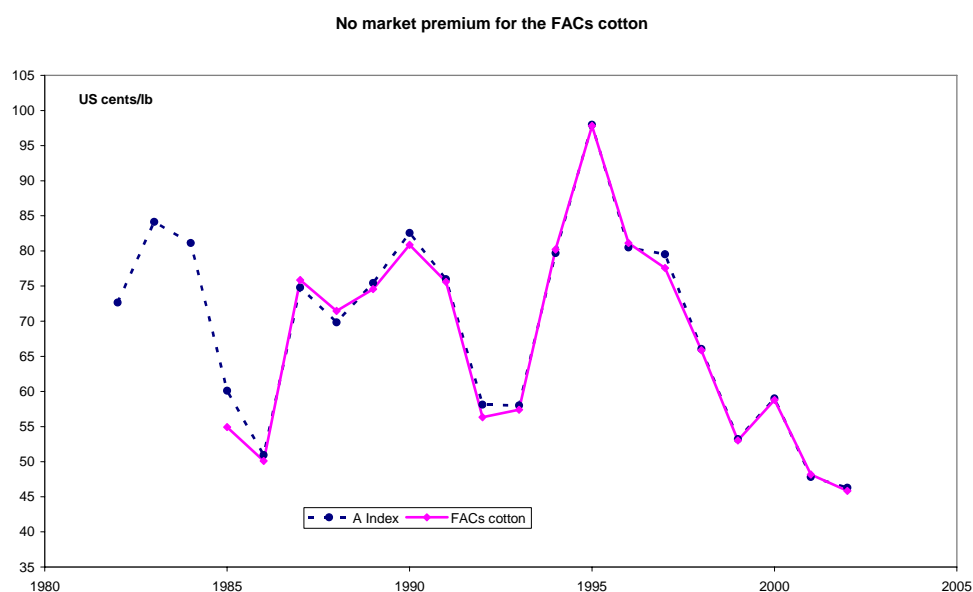
A index is calculated from a basket of a limited number of cotton origins (or cotton "growths") with a specific appearance grade ("Middling") and a lint length (1inch 3/32). The basket today is composed of 19 cotton growths. The A index is the mean value of the quotations of the five cotton "growths" which are least priced. For more than fifteen years, the cotton growth coming from the FACs (denominated "West African cotton") has been regularly retained in the A Index calculation.

A Index construction is not based on real transactions but declarations of intentions provided through telephone calls or faxes. In reality, only traders declare selling intentions. Even

nominal quotations are taken into account. It comes out that A Index is totally a virtual one, managed with not any transparency by a British private firm, and more importantly, which is sensitive to manipulations<sup>1</sup>.

Additional observation confirms that A Index should suffer some manipulation, in particular at the expense of the FACs. The quality of the cotton of these countries is generally acknowledged to be good. This is why quality-demanding countries (EU, Japan, Taiwan) account for 25-40% of the outlets of the FACs' cotton these recent years (Fok and Bachelier, 2004). The FACs produce a great share of lint length longer than the one required for the A Index cotton (Table 2). There is not so much of the West African cotton which might correspond to the A Index type. Nevertheless, the West African cotton comes out to be the cotton growth the most regularly quoted, every of the quotation days in Liverpool, to the extent that A Index curve is totally confused with the one for the West African cotton (Figure 2). This is a paradox which sustains that A Index should be polluted by false declarations.

Figure 2. Confusion of A Index and price for the FACs' cotton



<sup>1</sup> An African commercial director observed that A Index had several times plunged severely without reason, just before a big trader proposed him a contract for a great amount of cotton.

Table 2. Quality distribution of the cotton lint production in West Africa countries

|      | Share of lint length > 1"3/32 |              | Grade > Middling |              |
|------|-------------------------------|--------------|------------------|--------------|
|      | 5 countries                   | The best one | 5 countries      | The best one |
| 1995 | 38%                           | 21%          |                  |              |
| 1996 | 37%                           | 22%          |                  |              |
| 1997 | 44%                           | 30%          | 63%              | 49%          |
| 1998 | 31%                           | 44%          | 56%              | 36%          |
| 1999 | 26%                           | 53%          | 62%              | 39%          |
| 2000 | 24%                           | 42%          | 76%              | 67%          |
| 2001 | 19%                           | 57%          | 70%              | 59%          |
| 2002 | 23%                           | 45%          | 75%              | 70%          |

Source : Fok & Bachelier, 2004

### 3. FACs' isolation from the cotton trade oligopoly prior to liberalization

#### 3.1. Private regulations of cotton trade

All cotton transactions refer to specific sets of rules and bylaws defended by cotton professional associations. These rules are the basis for dealing with any conflict in the contract implementation and can be called Private Regulation Systems (PRSs). Various PRSs wear the names of the towns where they originated (Liverpool, Le Havre, New York, Memphis, Bremen...) in the second half of 19<sup>th</sup> century. The rules of Liverpool Cotton Association (LCA, which became International Cotton Association or ICA in 2004) serve for at least 60% of the international cotton transactions. The FACs refer exclusively to the *Réglements Généraux du Havre* (RHG).

The PRSs are basically sets of general conditions of cotton transaction contract. They specify quality criteria that can be contracted and the penalties that must apply in case the quality supplied is below the level agreed upon. The real agreement signed by contracting parties corresponds to specific conditions (i.e. quantities, quality criteria, price, date of delivery...) which are mentioned in less than two pages. The concepts of transaction costs and game theory can help understand why PRSs' rules are efficient (Bernstein, 2001, Fok, 2004).

It is worth emphasizing that PRSs rules deal explicitly with contradictory control modalities at delivery (in terms of quantities and quality). They acknowledge the natural feature of cotton, with some degree of heterogeneity, through the notions of franchise and tolerance threshold which mean that some part of the contracted amount can be provided below the agreed quality (AFCOT, 1994).

### ***3.2. Organization of the cotton sales prior to liberalization***

In all FACs, state control applied to cotton production and commercialization prior to the liberalization process in the first half of 1990s. From mid-1970s, a joint-venture company enjoyed national monopoly right in managing cotton production, i.e. supplying inputs and technical assistance to farmers, buying farmers' productions, ginning seedcotton. Except in Benin, the capital of the cotton company is shared between the African State and a French company with a minority share (Développement des Agro-Industries du Sud or DAGRIS, formerly Compagnie Française de Développement des Textiles or CFDT). Till mid-1980s, in most of the FACs, the exportation of all agricultural commodities (including cotton) was managed by a public organism distinct from the cotton company. After the first world cotton crisis in 1985, all cotton companies in the FACs got the responsibility of exporting its own cotton.

Cotton was sold through a selling commissioner, COPACO, the same for all FACs. COPACO is totally owned by DAGRIS since the end of 1980s, but its dates back to 1863. In the opposite of a trader, a commissioner never takes possession of the cotton. He only plays an intermediation role and gets a commission based on the contract value. Intermediation also encompasses representing the mandatory in case of conflicts with buyers. A commissioner is basically accountable to his mandatory in terms of selling all cotton available, at acceptable price, and of guarantying the final payment. In the context of the 1960s to 1970s, the completion of these tasks did matter. Through this commissioning scheme, all clients were final users of cotton lint, namely spinners, located in various countries in the world. All sales were at CIF position, with high organization requirements for proper shipping.

Clearly, till the beginning of 1990s, most of the FACs had no relation with international traders. The option of selling through commissioner sheltered these countries from the cotton trading MNCs. Of course, since COPACO and CFDT are both French companies and which eventually became connected, risk of collusion may be questioned and actually might have been questioned. For the purpose of this paper, it suffices to note that there was no



downstream integration since COPACO intermediated and did not take ownership of the African cotton.

#### **4. Questionable globalization-assisted expansion of the cotton trading MNCs in the FACs**

The implementation of the liberalization process of the FACs' cotton sectors enables the MNCs to enter a sheltered market and to become dominant within less than one decade.

##### ***4.1. Trade liberalization: a concession gesture within a harsh debate***

The liberalization of the cotton sectors started in Anglophone Africa by mid-1980 and raised no debate (Fok, 2001). The situation was quite different in the FACs because production kept on growing when the liberalization was put on the agenda at the aftermath of the second world cotton crisis in 1991. It was argued that liberalization would enable cotton sectors to better adapt to world market fluctuations to the benefit of farmers (Banque mondiale, 1998, Varangis, et al., 1995). Intervention of MNCs in the liberalization was regarded positively (Pursell and Diop, 1998).

Harsh and passionate debate resulted (Véron, 1998) conducted by CFDT (CFDT, 1998, Fichet, 1996). Some observers saw an opposition between the World Bank and French interest (Gilguy, 1998, Zolty, 1996) while the general advocacy of liberalization of agricultural sectors provoked skeptical and critical analyses from various horizons (Bayliss, 2001, Hibou, 1998, Stiglitz, 1999, Traoré, 1999).

The reform of the cotton sectors eventually was launched, at different rhythm and following various modalities. Privatization surely took place but not really liberalization of the whole cotton sectors (Bourdet, 2004, Fok and Tazi, 2003, Goreux and Macrae, 2002).

Amazingly, change of the cotton lint commercialization scheme gave rise to no or very discreet discussion. Only one public document discusses the selling through commissioner and the COPACO's performance (Macrae, 1995) preceding the decision to start selling cotton lint to traders. It seems that the acceptance to diversify the cotton selling scheme was a concession gesture from CFDT, if not from the French government, as a sign of good will to reform cotton sectors. Questionable outcomes we observe now likely were not anticipated.

#### ***4.2. Dominant position of cotton trading MNCs within one decade***

In spite of the difficulty to have access to data related to the cotton transaction contracts, we succeeded for one country (we call country X for not disclosing its name). The data for the 1991-2002 period provide some information on how the ITCO achieves a dominant position in the FACs.

Today, it is acknowledged that in every FAC, cotton is mainly exported by selling it to traders, all MNCs. This is the result of a gradual process. In country X, we observed that it was from 2000 that traders caught up COPACO in getting the cotton of this country (Table 3), informally, we know that the COPACO's share has plunged to around 15-20% at the last season. The conversion to exclusive sales on FOB position came abruptly, in 2002.

The data cannot help to appraise who are the traders involved (except COPACO) and how many they are. However, we know informally that, till 2000, there were only 5 to 6 cotton trading companies in most FACs. The cotton company in Mali claims dealing with fourteen traders at the last season, after it suffered great payment delay by a well known trader for a large amount of cotton.

Table 3. Distribution of cotton exportation in country X

|      | Sales via or to |         |        | Sales position |       |
|------|-----------------|---------|--------|----------------|-------|
|      | COPACO          | Traders | others | CIF            | FOB   |
| 1991 | 93,8%           | 0,7%    | 5,4%   | 71,7%          | 28,3% |
| 1992 | 95,7%           | 3,2%    | 1,1%   | 70,0%          | 30,0% |
| 1993 | 93,6%           | 2,7%    | 3,7%   | 89,6%          | 10,4% |
| 1994 | 86,9%           | 12,7%   | 0,4%   | 80,1%          | 19,9% |
| 1995 | 91,5%           | 8,5%    | 0,0%   | 79,5%          | 20,5% |
| 1996 | 98,0%           | 1,8%    | 0,2%   | 95,8%          | 4,2%  |
| 1997 | 95,5%           | 4,0%    | 0,5%   | 95,2%          | 4,8%  |
| 1998 | 90,5%           | 9,1%    | 0,4%   | 93,4%          | 6,6%  |
| 1999 | 83,5%           | 16,4%   | 0,1%   | 83,3%          | 16,7% |
| 2000 | 73,2%           | 26,8%   | 0,0%   | 89,9%          | 10,1% |
| 2001 | 60,6%           | 39,4%   | 0,0%   | 95,2%          | 4,8%  |
| 2002 | 50,6%           | 49,4%   | 0,0%   | 2,7%           | 97,3% |

COPACO, on theory, kept the right to continue commissioning for the FACs' cotton companies but it is actually no longer commissioning and is involved now like a conventional trader. In a nutshell, cotton of the FACs is nowadays exclusively sold to traders after an exclusive selling through commissioner. This shift implies also a dramatic change in the selling position. All sales are on FOB position. This change means disruption of the selling

cotton companies with their final clients but also modification of the transaction rules (cf. *infra*).

The liberalization of the cotton selling enabled the cotton trading MNCs to conquer the FACs' cotton market. The privatization of the cotton companies which followed enabled them to consolidate their position through an upstream integration process. Cotton trading companies like Reinhard, Dreyfus, Aiglon, are running cotton companies in Côte d'Ivoire, Burkina Faso, Benin. Dunavant tried too. DAGRIS itself is committing himself in this upstream integration process (Senegal, Madagascar, Mozambique, Burkina Faso). In short, a substantial share of the transactions of the whole FACs' cotton is actually intra-firm exchanges generally less profitable for the subsidiaries.

#### ***4.3. Negative price effect***

In the opposite of the objective sought, Figure 2 shows that there is no change in the price of the FACs' cotton relatively to A Index after the liberalization of cotton commercialization. As we pointed out above, the quality of the FACs' cotton is good. To some extent, this quality got improved both in terms of lint length and appearance grade during the recent years (Table 2). Unchanged price status for a quality which globally got improved is then indication of depressed performance.

This is confirmed by the real prices obtained by country X. It is delicate to compare mean prices when exportation occurs during the whole season with fluctuating prices which are also influenced by quality differentials. Under this reservation, we observe that, at the beginning, traders did propose better prices than COPACO either for sales at CIF or FOB positions, but with quantities which were far lower (Table 4). When traders start dealing with bigger quantities, up to reach the same level than COPACO, traders no longer showed any price advantage. This result may reveal a penetration strategy from traders which was put aside once the penetration objective is reached.

Table 4. Evolution of the traders' price advantage in country X

|      | Sales at FOB position |         |                       |         | Sales at CIF position |         |                       |         |
|------|-----------------------|---------|-----------------------|---------|-----------------------|---------|-----------------------|---------|
|      | Amounts, tons         |         | Average price, FF/ton |         | Amounts, tons         |         | Average price, FF/ton |         |
|      | COPACO                | Traders | COPACO                | Traders | COPACO                | Traders | COPACO                | Traders |
| 1991 | 24 931                | 300     | 8 526                 | 9 550   | 78 620                | 500     | 9 254                 | 10 360  |
| 1992 | 29 960                | 3 727   | 7 806                 | 6 412   | 80 573                |         | 7 286                 |         |
| 1993 | 7 890                 | 1 273   | 6 156                 | 6 498   | 119 640               | 2 400   | 6 443                 | 6 721   |
| 1994 | 7 900                 | 11 866  | 8 327                 | 9 291   | 79 460                | 950     | 7 525                 | 10 226  |
| 1995 | 16 300                | 10 105  | 8 024                 | 10 317  | 101 692               | 850     | 9 291                 | 10 218  |
| 1996 | 3 740                 | 3 000   | 8 700                 | 9 022   | 161 897               |         | 9 311                 |         |
| 1997 | 900                   | 7 500   | 8 474                 | 9 147   | 181 345               | 150     | 8 792                 | 9 480   |
| 1998 | 1 867                 | 11 945  | 8 228                 | 8 182   | 199 486               | 8 300   | 9 327                 | 9 762   |
| 1999 | 600                   | 35 830  | 7 490                 | 7 233   | 182 294               |         | 7 838                 |         |
| 2000 | 2 060                 | 17 725  | 6 514                 | 5 623   | 141 697               | 35 010  | 6 962                 | 7 813   |
| 2001 |                       | 5 053   |                       | 5 462   | 63 253                | 36 040  | 8 319                 | 8 137   |
| 2002 | 115 145               | 112 980 | 6 421                 | 6 220   | 3 590                 | 2 750   | 8 368                 | 8 445   |

When quality criteria are considered, the assumed price advantage of traders is furthermore debatable. For cotton lint of appearance grade higher than the one corresponding to A Index cotton, traders show price disadvantage for a high volume of cotton they buy. In the opposite, when cotton of lower quality criteria is considered, traders do not show any price competitiveness in any case (Table 5). Lower is the quality, i.e. when lower appearance grade is combined with shorter lint, lower is the traders' price as compared to COPACO.

Table 5. Assessment of price disadvantage with integration of quality criteria

|      | Cotton of Higher appearance grade |         |               |         | Cotton of longer length  |         |               |         | Higher grade and longer length |         |               |         |
|------|-----------------------------------|---------|---------------|---------|--------------------------|---------|---------------|---------|--------------------------------|---------|---------------|---------|
|      | Amounts, tons                     |         | Price, FF/ton |         | Amounts, tons            |         | Price, FF/ton |         | Amounts, tons                  |         | Price, FF/ton |         |
|      | COPACO                            | Traders | COPACO        | Traders | COPACO                   | Traders | COPACO        | Traders | COPACO                         | Traders | COPACO        | Traders |
| 1991 |                                   |         |               |         | 1 372                    |         | 7 824         |         |                                |         |               |         |
| 1992 | 4 100                             |         | 7 833         |         | 671                      |         | 5 074         |         |                                |         |               |         |
| 1993 | 1 093                             | 500     | 6 068         | 6 250   | 1 975                    | 273     | 6 606         | 6 400   | 493                            |         | 5 894         |         |
| 1994 |                                   |         |               |         | 5 600                    | 9 816   | 8 804         | 9 299   |                                |         |               |         |
| 1995 | 300                               | 1 000   | 9 350         | 9 200   | 15 300                   | 9 605   | 7 948         | 10 323  | 300                            | 1 000   | 9 350         | 9 200   |
| 1996 |                                   |         |               |         | 3 740                    | 3 000   | 8 700         | 9 022   |                                |         |               |         |
| 1997 |                                   |         |               |         | 900                      | 7 500   | 8 474         | 9 147   |                                |         |               |         |
| 1998 |                                   | 2 000   |               | 7 950   | 1 867                    | 11 945  | 8 228         | 8 182   | 2 000                          |         | 7 950         |         |
| 1999 |                                   | 25 405  |               | 7 363   |                          | 24 390  |               | 7 245   | 15 405                         |         | 7 475         |         |
| 2000 | 400                               | 10 560  | 7 960         | 5 687   | 560                      | 13 375  | 5 848         | 5 616   | 7 560                          |         | 5 861         |         |
| 2001 |                                   | 417     |               | 6 701   |                          | 200     |               | 7 250   | 200                            |         | 7 250         |         |
| 2002 | 48 015                            | 49 760  | 6 641         | 6 245   | 6 200                    | 5 980   | 6 246         | 6 919   | 3 260                          |         | 7 043         |         |
|      | Cotton of lower appearance grade  |         |               |         | Cotton of shorter length |         |               |         | Lower grade and shorter length |         |               |         |
|      | Amounts, tons                     |         | Price, FF/ton |         | Amounts, tons            |         | Price, FF/ton |         | Amounts, tons                  |         | Price, FF/ton |         |
|      | COPACO                            | Traders | COPACO        | Traders | COPACO                   | Traders | COPACO        | Traders | COPACO                         | Traders | COPACO        | Traders |
| 1991 | 24 931                            | 300     | 8 526         | 9 550   | 23 559                   | 300     | 8 567         | 9 550   |                                |         |               |         |
| 1992 | 25 860                            | 3 727   | 7 802         | 6 412   | 29 289                   | 3 727   | 7 869         | 6 412   | 4 100                          |         | 7 833         |         |
| 1993 | 6 797                             | 773     | 6 170         | 6 659   | 5 915                    | 1 000   | 6 005         | 6 525   | 600                            | 500     | 6 210         | 6 250   |
| 1994 | 7 900                             | 11 866  | 8 327         | 9 291   | 2 300                    | 2 050   | 7 163         | 9 255   |                                | 950     |               | 9 374   |
| 1995 | 16 000                            | 9 105   | 7 999         | 10 439  | 1 000                    | 500     | 9 185         | 10 200  |                                |         |               |         |
| 1996 | 3 740                             | 3 000   | 8 700         | 9 022   |                          |         |               |         |                                |         |               |         |
| 1997 | 900                               | 7 500   | 8 474         | 9 147   |                          |         |               |         |                                |         |               |         |
| 1998 | 1 867                             | 9 945   | 8 228         | 8 228   |                          |         |               |         |                                |         |               |         |
| 1999 | 600                               | 10 425  | 7 490         | 6 916   | 600                      | 11 440  | 7 490         | 7 206   |                                | 11 440  |               | 7 206   |
| 2000 | 1 660                             | 7 165   | 6 166         | 5 529   | 1 500                    | 4 350   | 6 763         | 5 643   | 400                            | 3 900   | 7 960         | 5 550   |
| 2001 |                                   | 4 635   |               | 5 351   |                          | 4 853   |               | 5 389   |                                | 217     |               | 6 197   |
| 2002 | 67 130                            | 63 220  | 6 264         | 6 201   | 108 945                  | 107 000 | 6 431         | 6 181   | 48 015                         | 46 500  | 6 641         | 6 189   |

Definitely, owing to the data of country X, the FACs suffered from traders' price capture.

These countries suffer also from detrimental changes in transaction rules.

#### ***4.4. Unilateral and unfair readjustment of transactions rules by traders***

After the liberalization of the cotton lint commercialization, transaction contract still refer to RGH rules which nevertheless are unilaterally re-interpreted.

Many signs indicate that traders get themselves organized in implementing control before shipment. One trader has set up its own cotton quality laboratory in Benin to control all the cotton it buys from the FACs. Internationally renowned services of quality and shipment controls are now installed in several FACs and are charged of controlling cotton quality on behalf of various traders. This control enables traders to reject cotton bales they are not satisfied with, for reasons they not necessarily specify. The real fact is that the principle of contradictory control -implemented in the face of representatives of selling and buying parties- is over.

The unilateral revocation of a sacrosanct principle attracts no attention while financial implications for the FACs could be enormous. This revocation goes along with the abolition of the notions of franchise and tolerance threshold mentioned above. No tolerance is now applied, and for sure this is at the expense of the selling parties.

All PRSs rules are very clear in the respect of the delay in removing or delivering contracted cotton bales. In case of non respect, penalties apply. Several cotton companies complained that traders may delay a lot the removal the cotton they bought, causing cotton deterioration. This behavior leads the cotton companies to lose three times without compensation through arbitration: storage cost, deterioration-linked penalty and discredit on the image of their cotton.

### **5. Conclusion**

The FACs exclusively fight for the abolition of subsidies applied by a few big cotton producing countries. Although legitimate, it is doubtful that the outcome could be so much satisfactory because subsidizing countries have room in re-arranging measures of their support policies (Fok, 2005).

The negative impact of the MNCs' market power must be addressed (Heffernan and

Hendrickson, 2002, Murphy, 2002). This market power is getting stronger and stronger, it concerns also cotton and there are signs that an international price index serves as an expression of this power.

The FACs were protected from MNCs in the cotton trade. Within less than one decade, and thanks to the implementation of the liberalization process, these companies have become totally dominant. Similar phenomenon is observed with cocoa in Africa (Kaplinsky, 2004, Losch, 2002). Liberalization then served as Trojan Horse for the MNCs penetration.

Negative price impact resulted. Unilateral and unfair change of cotton transaction rules took place. Historical private regulation system are being pushed down to the sole benefit of traders and at the expense of cotton producers.

What can the FACs do? It will be hard to refill the Trojan Horse and push it out. Setting up a follow-up system could help prevent traders from abusing too much their dominant position. In this regard, the FACs should join, if not take the lead of, the movement demanding that MNCs be addressed by the WTO regulation system (Murphy, 1999). So far, these MNCs can enjoy total lack of control and transparency in doing business at the expense of producers. It sounds wise to submit them to fulfill specific questionnaire to inform about their business and the prices they apply, just like what has been requested to State Trading Enterprises at the completion of the Uruguay Round (Article XVII of the GATT 1994, questionnaire set up on 1998).

Finally, it is worth noting the paradox of exacerbated concentration of the commodity trade at the international level while developing countries were forced to go into a fragmentation movement by abolishing marketing boards or public monopoly companies which provided some price protection to farmers. This fragmentation movement made easier the domination of trading MNCs in developing countries. Is it just coincidence?

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